



EXECUTIVE SUMMARY

The County Executive's Proposed Budget for Fiscal 2004 reflects both the Administration's substantial progress over the last 20 months to correct the fiscal mismanagement of the past and its unwavering commitment to the achievement of complete fiscal recovery.

The total Proposed Fiscal 2004 Operating Budget totals \$2.29 billion, which represents only a 0.3 percent increase (\$6 million) over the Adopted Fiscal 2003 Budget. That the Administration is able to present a budget with such minimal growth, no property tax increase and a conservative sales tax estimate is a strong indication of its success at:

- workforce reduction
- implementing smart government initiatives
- negotiating labor contracts that break from the County's past costly patterns
- borrowing less money
- utilizing available Fiscal 2003 resources to pre-pay debt
- controlling discretionary spending

Furthermore, it is important to note that the vast majority of categories where there is actual growth in the budget is attributable to factors outside of the County's control including Medicaid (\$40.5 million greater than the Fiscal 2003 projected actual expenditures), health insurance costs (\$22.2 million greater than the 2003 projection) and pension contributions (\$55.5 million greater than the current projection).

THE FISCAL 2004 BUDGET: CONTINUED COMMITMENT TO SOUND FISCAL PRACTICES

Since January 2002, the Administration developed two Multi-Year Financial Plans and one Multi-Year Financial Plan Update that were unanimously approved by the Nassau Interim Finance Authority (NIFA). It also produced a Fiscal 2003 Budget that was unanimously approved by NIFA and adopted by the County Legislature. It inherited a Fiscal 2002 Budget from the prior Administration that failed to account for several unforeseen and substantial risks and, through prudent management, it identified alternative resources and implemented additional expense reductions and savings initiatives to end the year with an approximately \$40.5 million positive result.¹ The careful management of the County's finances has continued this year, as the Office of Management and Budget currently is projecting a \$54.4 million positive result for Fiscal 2003 before utilizing one-time resources to pre-pay \$53.6 million worth of future non-recurring expenses.²

Table 3.1 highlights the Administration's major achievements over the past 20 months, each of which was instrumental to the County securing upgrades from the three major bond rating agencies.

¹ Comprehensive Annual Financial Report of the Comptroller for the Fiscal Year Ended December 31, 2002, page 3.

² Quarterly County Budget Report for the Period Ending June 30, 2003, page 1.

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Table 3.1: Timeline of Major Financial Achievements

Date	Achievement
April 2002	Fiscal 2002-2006 Multi-Year Financial Plan unanimously approved by NIFA and adopted by 10-9 vote of the County Legislature
April 2002	Standard and Poor's Ratings Services removes the County from "negative credit watch"
October 2002	Fiscal 2003 Budget and Fiscal 2003-2006 Multi-Year Financial Plan unanimously approved by NIFA and adopted by 10-9 vote of the County Legislature
October 2002	Fitch Ratings improves the County's rating outlook from "stable" to "positive"
February 2003	County Comptroller issues preliminary report indicating that Nassau ended Fiscal 2002 with a \$40.5 million positive result
February 2003	Moody's Investors Service upgrades Nassau County's bond rating from Baa3 to Baa2
March 2003	Standard & Poor's Rating Services upgrades Nassau County's bond rating from BBB- to BBB
April 2003	Fitch Ratings upgrades Nassau County's bond rating from BBB to BBB+
May 2003	County Comptroller issues Annual Financial Report confirming that Nassau ended Fiscal 2002 with a \$40.5 million positive result
June 2003	May 2003 Update to the Fiscal 2003-2006 Multi-Year Financial Plan unanimously approved by NIFA

The key to the Administration's success to date has been its commitment to the following principles:

- The development of a budget and financial plan founded on conservative and realistic assumptions of revenues and expenses
- The refusal to utilize non-recurring revenues and prior-year undesignated fund balances to cover current year baseline operating expenses
- The pre-payment of non-recurring expenses, when possible
- The implementation of appropriate borrowing practices
- The commitment to long-term planning and the implementation of the key components of the Multi-Year Financial Plan
- The targeted investment of resources in projects that will improve services to the public, streamline operations and generate financial savings and efficiencies
- Honor the pledge not to increase the property tax levy in 2004 and 2005
- The establishment of reserves to address contingencies should they arise
- The completion of detailed monthly financial reports that assess the County's current fiscal condition and identify potential threats and opportunities as they arise
- The swift enactment of measures necessary to maintain fiscal balance

The Fiscal 2004 Budget submitted by the County Executive again reflects the Administration's steadfast commitment to these overriding principles.

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CONSERVATIVE AND REALISTIC BUDGET ASSUMPTIONS

Prior to the submission of the Proposed Fiscal 2004 Budget, OMB staff met with key financial staff of NIFA, the Office of the County Comptroller and the Office of Legislative Budget Review (OLBR) to review the critical assumptions of the soon-to-be-released budget. The purpose of this meeting was to share with the fiscal oversight community the latest information on several key drivers of revenue generation and expenditure growth and to outline the Administration's intent to adopt assumptions that would minimize budget risks during the year. Based on the results of that meeting as well as the extensive information gathered from a wide variety of sources, the Administration is confident that the Proposed Fiscal 2004 Budget is appropriately conservative in nature and is based upon the best data available.

Table 3.2: Conservative Assumptions Incorporated into Fiscal 2004 Proposed Budget

Category	Assumption	Notes
Wages	Consistent with existing labor agreements and/or historical wage patterns	Sufficient resources available to cover costs consistent with recent trends
Staffing	On-board staffing levels, unless specific hiring has been authorized, with a goal of continued workforce reduction	Risk of salary shortfalls minimized because additional workforce reduction is not needed to achieve budget targets
Health Insurance	15 % growth for actives 18 % growth for retirees	Based upon the Empire Plan's scenarios
Regular Pension Costs	Average of 13.3 % of payroll (11.3 % to 19.5 % depending upon tier)	Based upon the recommendations of the State Comptroller and Actuary
Police Pension Costs	Average of 19.2 % of payroll (17.4 % to 29.4 % depending upon tier)	Based upon the recommendations of the State Comptroller and Actuary
Medicaid	13.5 % growth over Fiscal 2003 projected expenditures	Based upon the recommendations of local, State and Federal health and human services experts
Sales Tax	2.7 % growth over conservative Fiscal 2003 projection	Should Fiscal 2003 performance be better, County will need less growth to achieve budget target
Fund Balance	None appropriated in operating budget \$19.9 million appropriated in Technology Fund	Recurring operating resources cover recurring operating expenses

NO PRIOR-YEAR FUND BALANCES APPROPRIATED

Table 3.2 shows that the County has once again opted not to appropriate any prior-year fund balances to offset recurring operating expenditures in the major operating funds of the Fiscal 2004 Budget.³ This is consistent with prudent financial practices and with the provisions of the NIFA Act. The Administration is proposing the appropriation of \$19.9 million of fund balances into the Technology Fund to support non-recurring investments in technology that will produce

³ As of the end of Fiscal 2002, the County had accumulated approximately \$68.5 million on undesignated fund balance.

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long-term benefits to the County. The concept of allocating prior-year resources into the Technology Fund for one-time costs is supported by NIFA.

PRE-PAYMENT OF NON-RECURRING FISCAL 2004 EXPENSES IN FISCAL 2003

OMB's Fiscal 2003 Second Quarter Report highlighted the Administration's intent to utilize to the greatest extent possible one-time resources made available by prudent financial management this year to pre-pay non-recurring expenses. The benefit of this strategy is threefold: it eases pressures on future budgets; it avoids the need to borrow and thereby reduces interest payments; and it allows expedited investment in projects that will generate long-term efficiencies and savings.

The Fiscal Proposed 2004 Budget reflects this policy decision in several instances, but most significantly in the pre-payment this year \$42 million worth of debt service for the County's entire obligation for 2002 Early Retirement Incentive and the defeasance of all remaining liabilities of 1993 retirement costs. Taken together, these actions will save approximately \$14 million in Fiscal 2004. Nassau likely will be one of the only counties in the State to pay off its entire 2002 Early Retirement Incentive liability out of operating expenses this year and avoid borrowing in 2004.

IMPLEMENTATION OF APPROPRIATE BORROWING PRACTICES

Among the primary major causes of the County's fiscal woes were the prior Administration's reckless borrowing habits. All too often, the County deferred making the difficult financial decisions by borrowing to cover costs that should have been appropriated in the operating budget. There was no comprehensive capital budget planning or budgeting process. Therefore, decisions were made on a project-by-project basis with little regard for the County's overall borrowing capacity. To make matters worse, the County's flawed property tax assessment system was draining \$100 million per year as the County borrowed to pay tax certiorari settlements.

The \$316.8 million debt service appropriation in the Fiscal 2004 Proposed Budget reflects the County's substantial improvement in this area. Most tangibly, the County has reduced its capital improvement program by more than half from a high of approximately \$160 million that was approved in Fiscal 2002 to roughly \$70 million in Fiscal 2004. Additionally, the County's improved cash management practices have placed it in a better cash position and reduced reliance on cash borrowings by \$291 million since Fiscal 2000 (62 percent).

While these measures have already produced immediate results, the Administration also is in the process of phasing-in its long-term strategy of eliminating all borrowing for expenses that more appropriately should be paid for out of the annual operating budget. The most significant step in this process will take place in Fiscal 2006 when the County will begin paying all tax certiorari refunds out of its operating budget at an estimated cost of \$57.7 million. In the meantime, the Fiscal 2004 Operating Budget contains \$2.5 million to cover judgments and settlements and contains \$1.6 million for the purchase of police patrol vehicles, which up until now have been paid for primarily from borrowed funds. It is the hope of the Administration to transition vehicle purchases to the major operating funds by the outyears.

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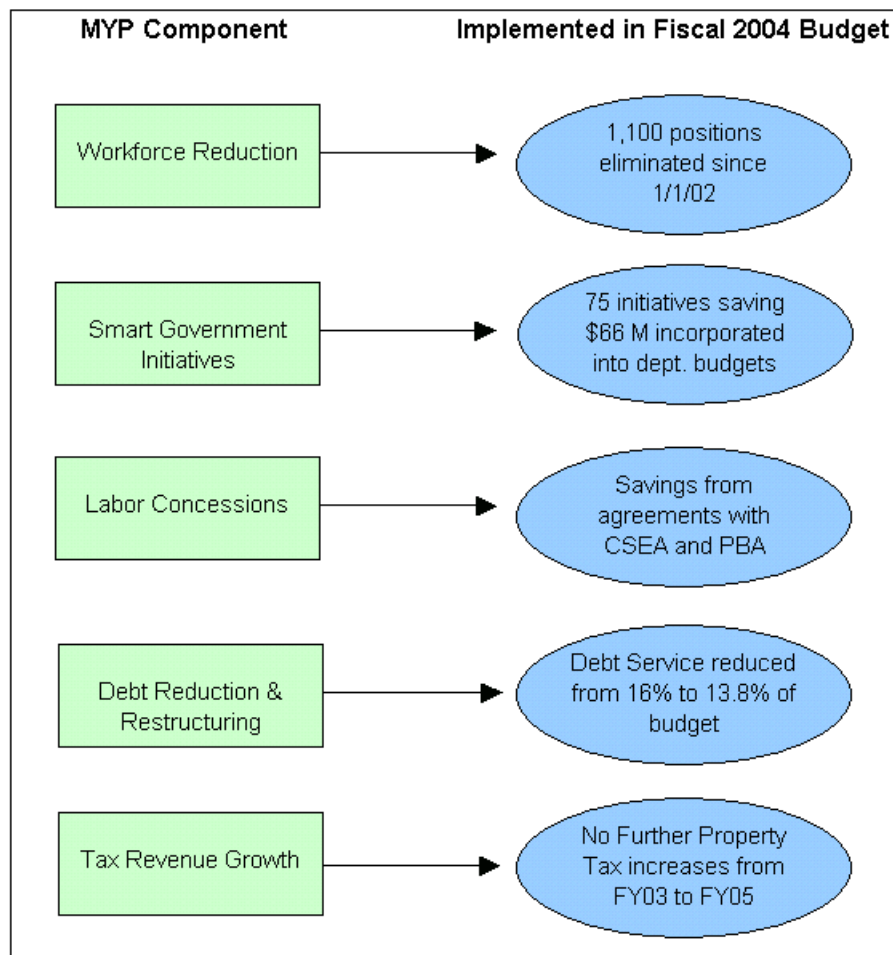


Lastly, despite the State Legislature's authorization to do so, the Administration does not intend to borrow in Fiscal 2004 to cover its local pension contribution. While Albany will allow localities to borrow for all pension contributions in excess of seven percent of payroll (they are expected to reach an average of 13.3 percent of payroll for regular employees and an average of 19.2 percent of payroll for sworn police personnel), the Administration believes that to incur debt service costs to cover this regular operating expense would be fiscally unwise, artificially reduce the County's operating obligations and unnecessarily increase interest costs on an ongoing basis. Symbolically, it would represent a step backwards for a County that has been up until now succeeding in eliminating the irresponsible fiscal practices of the past.

FISCAL 2004 BUDGET ADVANCES KEY MULTI-YEAR FINANCIAL PLAN COMPONENTS

The success of the Multi-Year Plan requires the accomplishment of eight major initiatives, the achievement of which are essential for the County to restore itself to fiscal stability. The Fiscal 2004 Proposed Budget advances the goals of the Multi-Year Plan by incorporating each of the components that were scheduled to take effect in Fiscal 2004.

Figure 3.1: Multi-Year Financial Plan Components Incorporated in Fiscal 2004 Budget



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Of particular note is the incorporation of 30 new smart-government initiatives at a savings of approximately \$30.6 million into Fiscal 2004 Budget and Multi-Year Financial Plan baseline. For the past year, County departments have been diligently working on the development and implementation of these initiatives. The Fiscal 2004 Proposed Budget reflects the results of these efforts, and the Office of Management and Budget will monitor implementation progress during the year. Table 3.3 identifies the new smart government initiatives incorporated into the Fiscal 2004 Budget.

Table 3.3: New Smart Government Initiatives Built into the Fiscal 2004 Budget and Baseline

Vertical	Initiative Name	Initiative ID #	FY04 Impact
Public Safety	Taxi and Limousine Registration	PSCA01	\$341,000
	Utilize Part-Time Security Guards	PSCC01	\$1,000,000
	Increase Federal Reimbursement for Inmates	PSCC02	\$1,655,640
	Increase Number of Emergency Lighting Tests	PSFC02	\$277,472
	DNA Laboratory Opening	PSME01	\$250,000
	Improved Ticket Collection	PSTV02	\$667,242
Health & Human Services	Courts Initiative	HSDR01	\$850,000
	Medicaid Utilization	HSSS01	\$5,000,000
	ID Vets Eligible for VA Benefits	HSVS01	\$100,000
Parks, Public Works & Partnerships	Adopt A Highway Program	GSPW01	\$30,000
	Capital Project Chargebacks	GSPW02	\$500,000
	Utility Penalties for Road Construction	GSPW03	\$78,000
	Parks Revenue Enhancement Plan	GSPK01	\$1,416,800
	Transfer of Expense to Mitchel Field Grant	GSPK02	\$300,000
Shared Services	Audit Recoveries	SSAC01	\$3,200,000
	Reduced Outside counsel	SSAT01	\$93,000
	Risk Mitigation	SSAT02	\$750,000
	Affirmative Litigation	SSAT04	\$750,000
	Reduced Hiring Plan	SSAT05	\$238,000
	Mail/Print Shop	SSCF01	\$150,000
	OTPS Reductions	SSCF02	\$323,600
	Backcharges to Tech and Capital Funds	SSIT02	\$2,030,000
Budget & Finance	IDA Appraisal Fees	BFAR02	\$18,000
	College Reimbursement	BFBU01	\$2,000,000
	Reduced Reliance on Outside Consultants	BFBU02	\$200,000
	OTPS Freeze	BFBU03	\$4,445,262
	Night Simulcasting of Racing	BFRV01	\$1,151,000
	Collection of Unpaid Tax Liens	BFTR02	\$1,980,000
Econ. Dev.	Expand Availability Of GIS Data	EDPL01	\$290,000
	Reduce MTA LI Bus Subsidy	EDPL02	\$4,750,000
Total			\$30,643,662

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TARGETED INVESTMENT

Another strength of the Fiscal 2004 Budget is that it is reflective of the County Executive's decision to invest resources in projects that improve operations and generate long-term savings and efficiencies. This targeted investment, while difficult in financially challenging times such as these, is nevertheless essential to enable the County to adapt to changing needs, make the most of limited resources and become the "best county in the country."

The most significant targeted investments contained in the Fiscal 2004 Proposed Operating Budget are:

- Local Government Collaboration Project (\$1 million)
- Economic Development / Planning and Zoning Reform (\$700,000)
- Environmental Improvement Plan (\$200,000)
- Interactive 311 Telephone Line System (\$900,000)
- "No Wrong Door" Implementation for HHS Services (\$200,000)

Local Government Collaboration Project

This initiative would engage public management experts, local administrators, public officials and citizens in an effort to address one of the most vexing problems facing the region today – the duplication of effort and waste caused by the co-existence of multiple government entities (which in Nassau include one county, three towns, two cities and 64 incorporated villages). Unfortunately there are countless examples of this inefficiency, such as when jurisdictions fail to synchronize road repair and the same stretch of pavement must be re-excavated and re-paved when the entire job could have been completed at once and when plows abruptly cease removing snow at jurisdictional boundaries during storms and backtrack when the job could have done better had all of them been working together. This project would assist the various government entities in developing strategies to better coordinate service delivery and reduce costs.

"No Wrong Door" Implementation

The Health and Human Services Vertical has begun to implement its "No Wrong Door" policy, which is based upon the concept that clients in need of various social services should have easy access to those services and not experience delays as they negotiate a very large and sometimes unwieldy bureaucracy. During the Fiscal 2004 Budget development process, the Administration was forced to consider eliminating discretionary health and human services programming as a contingency should it not secure approval of the Sewer and Storm Water Authority. The task was difficult as it was discovered that oftentimes the least effective programs are those that serve the communities that most need services. Fortunately, these reductions will not be necessary next year, nevertheless, the Administration learned that successful implementation of "No Wrong Door" would benefit from the establishment of a policy development team, consisting of County health and human services experts and the non-profit service community, whose mission would be to determine how best to deliver quality services to the communities that need them the most.

Information Technology

Consistent with efforts already begun, the Fiscal 2004 Proposed Budget contains funding in the Technology Fund to continue the County's efforts to upgrade its outdated information systems, streamline labor-intensive functions and expand citizen access to County services. Specific

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projects will include the implementation of eGovernment, intranet, automated time and leave and financial infrastructure projects.

Interactive 311 Telephone Line System

The installation of a new 311 telephone line system devoted to non-emergency citizen inquiries and complaints would serve two purposes. First, it would provide a more convenient means for residents to contact County government and immediately access information or request services. Staffed by employees 24 hours per day, the system also would have the capacity to record citizen inquiries and monitor progress in responding to them. Second, the new system would contribute to public safety as it would reduce the number of non-emergency telephone calls made to the 911 system and free up operators to respond to only emergency requests.

Economic Development / Planning and Zoning Reform

The County Executive released his Nassau County Economic Development Plan in November 2002. That Plan pointed out the many challenges that the region will face in the coming years. These challenges are exacerbated by the fact that during Nassau's peak period of growth during the mid-20th century the focus was on local control and suburban serenity, not on developing a uniform strategy. In order to restore a sense of community pride and to base the County's planning efforts around "traditional communities", the Fiscal 2004 Budget contains funding for the establishment of a Planning Federation to bring together the Nassau County Planning Commission and local village/town/city planning departments to develop uniform planning and zoning standards that will serve as the catalyst for future targeted growth.

This reform includes an enhancement and expansion of the County's Geographic Information System (GIA) whose map production will support the decision-making requirements of the County and local governments.

Environmental Improvement Plan

The Fiscal 2004 Budget proposes to allocate \$200,000 for the purpose of coordinating currently disjointed efforts among local jurisdictions to address a myriad of environmental issues. In particular, the Environmental Improvement Plan would focus on establishing a consistent strategy regarding land use (i.e., the remediation of brownfields sites), water safety (i.e., drinking water quality monitoring, Long Island Sound anti-pollution efforts), energy conservation and production, clean air (i.e., emissions control) and traffic control (i.e., maximization of waterways, existing thoroughfares, alternate modes of transportation).

NO PROPERTY TAX INCREASE

When the County Executive submitted the Fiscal 2003-2006 Multi-Year Financial Plan, he promised that he would not propose another County property tax increase for the duration of his current term in office. The Fiscal 2004 Proposed Budget honors that pledge. The County will levy the same \$742 million in property tax revenue in Fiscal 2004 that it will collect this year.

That the Administration will be able to avert a property tax increase in the Fiscal 2004 Budget is evidence of the tremendous success it has achieved thus far in securing implementation of the other major components of the Multi-Year Financial Plan.

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ESTABLISHMENT OF RESERVES AND ACCRUALS

One of the critical ingredients to the Administration's success thus far has been its ability to identify risks when they arise and establish contingency plans should they materialize. Last year, contingencies were established to address a sudden and dramatic increase in pension contribution costs, a doubling in the number of police officer retirements and a sluggish economy that dragged down sales tax revenue. Despite these negative occurrences, as was discussed earlier in this report, the County still finished the year with a \$40.5 million positive result.

Similarly, the Fiscal 2004 Proposed Budget takes advantage of the Administration's foresight. Instead of spending all available Fiscal 2003 resources to pay for items that have no recurring benefit, the Administration has proposed establishing reserves or accruing for items in three crucial areas that will serve as a buffer next year and reduce pressures on expenditures.

Police Termination Pay Reserve: Consistent with 2003 trends, the Fiscal 2004 Budget contains funding sufficient to cover the retirement of approximately 100 officers. However, approximately 686 sworn personnel are eligible to retire. The Administration will ask the Legislature to approve a formal General Municipal Law Reserve for police termination costs to serve as a buffer against a one-time surge in retirements that might occur next year as a result of the aging of the force and the terms of the recently announced PBA contract. The reserve would be supported by utilizing surplus Fiscal 2003 funds and savings generated from the recently announced PBA contract, which are expected to total more than \$25 million.

Medicaid Accrual: \$9.3 million in surplus 2003 funds attributable to the federal government's decision to temporarily increase reimbursement and another \$12.2 million attributable to case processing delays will be accrued to offset one-time costs in Fiscal 2004 related to accelerating the processing of the case backlog.

Arbitrage Rebate Accrual: The Administration has established internal controls that will minimize arbitrage rebate liabilities in the future. However, it currently is reviewing prior debt issuances to determine whether in the past the County had earned more investment income than arbitrage rebate rules permit. Consequently, the Administration will be accruing \$2 million in Fiscal 2003 to cover potential arbitrage rebate liabilities during Fiscal 2004.